

CALIFORNIA HEALTH AND HUMAN SERVICES AGENCY 2004-05 STATE BUDGET BRIEFING

PREPARED REMARKS BY SECRETARY S. KIMBERLY BELSHÉ

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1:30 p.m.

Good afternoon everyone, I'm Kim Belshé. I'm Secretary of the California Health and Human Services Agency.

What I'd like to do first is make a few opening comments about the Governor's budget as it relates to health and human services and then open it up to you for your questions, which I will answer to the best of my ability, and if I can't we will make sure we get you the information you need.

First, let me say a few words about the Governor's budget and its implications for health and human services. I think the Governor has been very, very clear in his state-of-the-state address on Tuesday night and most recently this morning of his priorities for California – improving California's business climate, restoring our state's economic competitiveness, and, importantly, getting the State's fiscal house in order. One of the statistics that the Governor has used that really sticks out and should stick out for all of us is the fact that California's income over the past five years has increased by 25 percent, and yet at the same time state spending has increased 43 percent. From the Governor's perspective and from my perspective and others, this mismatch between revenues and expenditures is unsustainable; we have no choice but to reduce state spending.

As the Governor, consistent with his characteristic candor and directness, said Tuesday night and again this morning, the reductions proposed to help get the state's fiscal house in order will challenge us all; they will not be easy. But again, consistent with his general optimism, the Governor also acknowledged that as with every gray cloud there is a silver lining and in this case it is our hope and expectation that the depth of California's fiscal crisis will create an opportunity to bring about badly needed reform to government.

In terms of the Governor's budget for the Health and Human Services Agency, it recognizes a couple of important things:

- 1) It recognizes the imperative to get the state's fiscal house in order. Inaction is simply not an option.
- 2) It recognizes the contribution that health and human services expenditures have made to the overall growth of general fund spending in California over the course of the past five years. General fund growth since 1998-99 has increased by \$13.3 billion. Over half of that increase -- \$7 billion -- is associated with additional investments in the health and human services arena.

While the Governor recognizes that the status quo is unacceptable as it relates to the growth in health and human services expenditures, Governor Schwarzenegger recognizes the essential nature of many of the services provided through health and human services programs and activities for meeting the needs of the state's most vulnerable and at-risk Californians.

His approach, unlike approaches in the past, is not to propose the whole scale elimination of important benefits. It is not to propose the whole scale rolling back of eligible populations. Instead, Governor Schwarzenegger's budget represents a reasonable and responsible middle ground. It is an approach that controls costs and maximizes efficiency while at the same time maintaining essential services to Californian's most vulnerable and at-risk residents. A middle ground between two unacceptable alternatives: status quo on the one hand and whole scale elimination of programs and services on the other.

The Governor's budget was developed with a number of fundamental guiding principles in mind that were used to inform our recommendations to the Governor and his decision making in the health and human services area. I want to share these principles with you along with a couple of examples:

1. Maintain essential services to California's at-risk vulnerable populations.

For example, the Governor's budget maintains the entitlement to necessary services for those who are developmentally disabled. At the same time, we propose a number of strategies to better control costs to maximize efficiencies. A second example involves Medi-Cal. The Governor's budget provides continued coverage for the roughly 6.8 million individuals who are currently eligible for this program, including an estimated 1.5 million individuals who are newly covered as a result of the expansions that were put in place over the course of the past couple of years.

2. Recognize children as a priority investment for California.

As an example, Governor Schwarzenegger's budget continues to support other recent Medi-Cal expansions, including those designed to facilitate the enrollment of eligible children in the Medi-Cal program.

3. Promote personal responsibility.

Just as government has an obligation to help people most in need to maximize their health, well-being and ability to become self-sufficient and self-supporting, so too do recipients have an obligation to take advantage of services designed to promote their ability to become self-sufficient and, as possible and appropriate, to share in the costs of those services.

4. Promote work participation.

This principle is seen most directly in the reforms proposed by the Governor related to CalWORKS, California's welfare to work program, that are designed to further strengthen the program's focus on workforce participation. The principle of promoting work is also advanced through the Governor's continued coverage of

currently eligible Medi-Cal participants, including the over 400,000 working parents that were part of the expansions enacted a number of years ago.

5. Enhanced program effectiveness and accountability.

In Medi-Cal, as well as with the In-Home Supportive Services program, there is an array of reforms and proposals that are designed to improve program effectiveness and further strengthen program accountability.

There are a couple of reforms that I want to draw to your attention to, examples that reflect the reasonable and responsible middle ground the new Administration sought to strike.

First is the Healthy Families Program, which is a program that is near and dear to my heart as someone who was personally involved in creating it back in 1997-98. More importantly, is very near and dear to Governor Schwarzenegger's heart given his commitment to children and children's health insurance coverage. It is also, however, a program that has grown dramatically in recent years and represents one of many programs that we looked closely at with an eye toward better containing costs while maintaining coverage of important health care services. In the near term, the Governor has proposed a cap on enrollment, which is a very difficult decision on his part and is reflective, in my mind, of the depth of challenges we face as a state and the urgency to find ways to control program costs in the near term.

The Governor's budget, however, proposes a longer-term strategy that reflects the effort to strike the reasonable middle ground. California had an option. We could have scaled back eligibility for Healthy Families to 200 percent of poverty. Indeed, California is one of only seven states that provides coverage up to 250 percent of poverty. So, one option would have been to reduce eligibility to 200 percent of poverty and, in so doing, eliminate coverage to 150,000 children. Instead, Governor Schwarzenegger proposed to institute some structural changes to this program over the longer term. The Administration's proposal is to establish what we call a tiered benefits approach whereby higher income families, those families who have incomes between 200-250 percent of poverty, would be asked to contribute a greater share of cost for their children's continued coverage. If the families are unable or unwilling to pay modestly higher premiums, their children would remain eligible for coverage, though for a more basic benefit package. We think this is an example of striking a reasonable and responsible balance and it is much better than the alternative of eliminating coverage for the children currently being served. As an important note, on Governor's Schwarzenegger's near term proposal to cap enrollment on Healthy Families, we are not eliminating coverage to any child currently covered. Indeed, it's estimated that roughly 20,000 new children will enroll in the program each month as a result of attrition.

A second example I'd highlight is Medi-Cal, another program that has been growing dramatically—roughly 41 percent in general fund growth since 1998-99. The cost of Medi-Cal reflects the generosity of California's program in that Medi-Cal offers more comprehensive benefits than any other state in the union; California offers benefits that are more generous than many private employer-type plans; and we cover upwards of 6.8 million people—15 percent of our population, second only to New York in that respect. It is an example of a program that is growing beyond our ability to pay. In short, the status quo is unacceptable. So, too, are other approaches that have been proposed in the past, such

as the whole scale elimination of optional benefits, whole scale elimination of optional eligibles and so forth. Governor Schwarzenegger's proposal recognizes we need to institute some fiscal stability in this program so that it can exist for Californians over the long term. We will be working with the Legislature, constituency groups and stakeholders and our colleagues in Washington, D.C. to secure a federal demonstration waiver. Our goal is to secure the kind of flexibility that other states have been able to achieve to design and structure the program in a way that is more rational and more affordable so that over the long term the state can continue to provide necessary services for the roughly 6.8 million people who are eligible.

In closing, I note that the budget reflects some very difficult choices. As Governor Schwarzenegger said this morning, these are difficult choices that he does not take lightly, but they are choices necessitated by the depth of the state's budget problem that the Administration has inherited. But these are choices that reflect an effort by the Administration to strike a reasonable and responsible balance between two unacceptable alternatives: the status quo on one hand and the whole scale elimination of services on the other. I welcome your questions.